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Food Processing Ingredients Sector

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Approved by:

Randolph H. Zeitner

U.S. Embassy

Prepared by:

Hassall & Associates Pty Ltd

Report Highlights:

There is potential for growth in the US\$30.4 billion Australian food and beverage processing industry. Opportunities lie in new flavors for bread products, sauces and new cuisines, functional foods (e.g. breakfast bars) and processed organic products.

Includes PSD changes: No
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Annual Report
Canberra [AS1], AS

This report was written by consultants:

Hassall & Associates Pty Ltd
GPO Box 4625
Sydney NSW 1044
Tel: +61-2-9241-5655
Fax: +61-2-9241-5684
E-mail: hassyd@ozemail.com.au

Disclaimer: As a number of different sources were used to collate market information for this report, there are areas in which figures are slightly different. The magnitude of the differences is, in most cases, small and the provision of the data, even though slightly different, is to provide the U.S. exporter with the best possible picture of the Australian Food Processing Sector where omission may have provided less than that.

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Section I. Market Summary

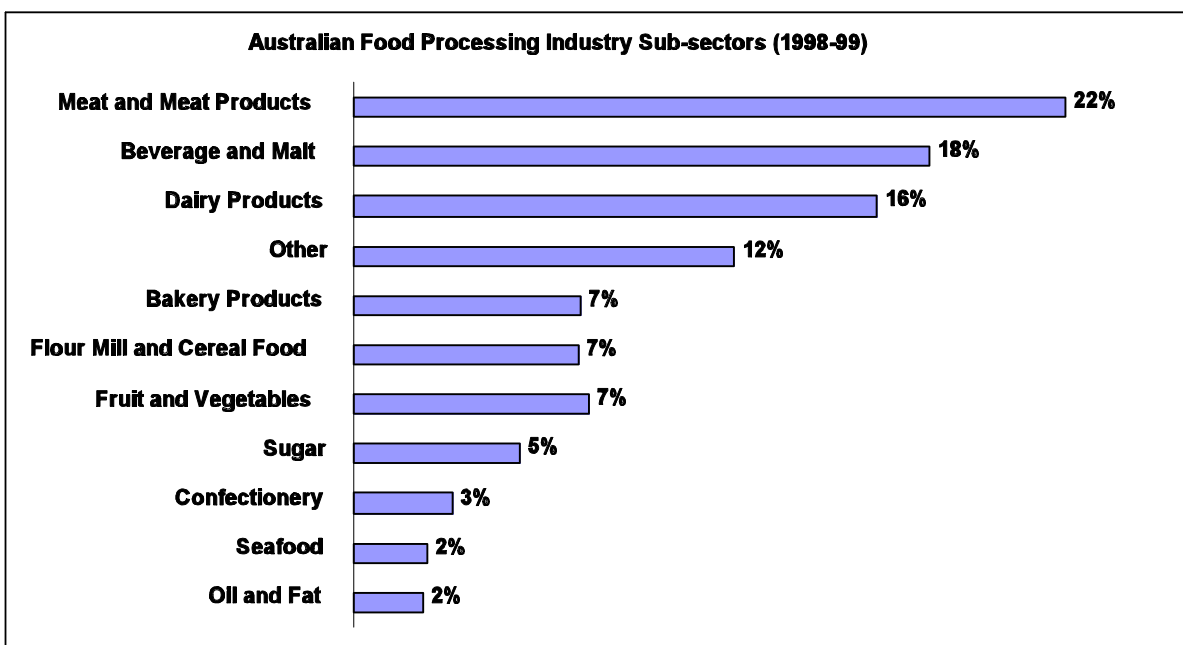
The Australian Food Processing Sector

In 1998/99, there were approximately 3,400 food processing establishments with total sales of US\$30.7 billion, 20% of which were generated from exports. The food processing sector is the largest manufacturing sector in Australia accounting for 22.3% of turnover. The next largest sector is machinery with a 19.6% share of sales. In value added terms, the food processing industry contributed around US\$8.6 billion in 1998/99 to the Australian economy. The largest contributor was beverages (including wine) accounting for 22% of the total, followed closely by meat processing (19%), dairy manufacturing (12%), bakery industries (10%) and flour milling (7%).

The performance of the sectors within the food processing industry varied, with dairy processing recording an overall improvement in net value added in 1999/00 of 19%, and the flour milling and cereal product manufacturing sectors recording a 20% improvement. In comparison, the net value added by the meat-processing sector fell by approximately 6% due to increases in labor costs in the abattoir and small goods industries. The wine-making industry, following strong growth of 30% in 1997/98 and 19% in 1998/99, experienced a small decline in 1999/00 as a result of a 17% rise in wage and salary costs. The sales of the industry were relatively unchanged totaling US\$2.08 billion (AFFA 2001).

The industry is dominated by a small number of large firms and foreign ownership exceeds 50% of industry manufacturing capability with the strategy of some of the foreign-owned companies being to manufacture as close as possible to, or inside, the markets they supply. Of the larger Australian owned firms, many are controlled by primary producer cooperatives, particularly dairy farmer cooperatives.

Australia's food processing industry is divided into a number of different sub-sectors as categorized by the Australian Bureau of Statistics (ABS) with meat and meat products, beverage and malt, dairy products, bakery products, flour mill and cereal food, fruit and vegetables, sugar, confectionery, seafood, oil and fat, and other. The meat and meat products sub-sector is the largest accounting for 22% value share (Australian Food Statistics 2001, pp41).



Importation of processed food and beverages has increased over recent years, however, at a slower rate, with the depreciated Australian dollar making imports more expensive. Australia imported approximately US\$2.56 billion of processed food and beverages in 1998/99 and US\$2.72 billion in 1999/00 (ABS Statistics), a growth of 4%. Manufactured food imports increased by 56% between 1989/90 and 1995/96, significantly faster than total industry turnover, with the result that import penetration (imports/local sales) increased from 6.4% to 7% (Schroder, *Australian Food*, Agrifood Media, 1999).

The largest contributors to total processed food and beverage imports in 1999/00 were seafood (18%), fruit and vegetables (17%), food nec (tea, mate, spices, coffee and other misc foods) (13%), spirits (10%) and processed oils and fats (6%). Local multinationals and overseas companies mostly supply food ingredients such as colors, flavors and stabilizers. The US for example supplies stabilizers.

During 1999/00 there was a very large percentage increase in imports of meat and meat products and sugar as shown in the following table, albeit from a very small base.

% Change in Australian Imports of Processed Food Products by Major Product Category

Product Category	% Change for 1999/00 over 1998/99 (AUD Value)*	% Change for 1999/00 over 1998/99 (USD Value)**
Meat and Meat Products	108%	113%
Dairy Products	0%	2%
Fruit and Vegetables	-12%	-10%
Oil and Fat	-3%	-1%
Flour Mill and Cereal Food	20%	23%
Bakery Products	19%	22%
Seafood	7%	9%
Confectionery	5%	8%
Sugar	245%	254%
Other	1%	3%
Beverage and Malt	18%	17%
Total All Processed Foods	6%	8%

* AUD were converted to 1998/99 dollars before % change calculated.

** AUD were converted to USD for 1998/99 and 1999/00 and then the % change calculated.

Food Inputs to the Food and Beverages Processing Sector

The Australian Bureau of Statistics estimates that the value of semi-transformed, domestically produced food inputs, used by the food processing sector was A\$5.6 billion (US\$4.1 billion) in 1994/95 and A\$4.9 billion in 1996/97 (US\$3.9 billion). The value of imported inputs used by the sector increased from A\$456 million (US\$338 million) in 1994/95 (7% of the total value) to A\$644 million (US\$502 million) in 1996/97 which represents 12% of the total value of inputs to the industry. All figures have been adjusted to 1999/2000 dollars and the information is taken from Input–Output tables produced by the Australian Bureau of Statistics (latest available 1996/97).

In 1998/99, imports of food and beverage inputs to industry increased to A\$731 million (US\$456 million), falling to A\$548 million (US\$324 million) in 2000/01. In 2000/01 71% of the imports of food inputs were processed products and originated mainly from Malaysia, the US and Singapore. The remainder of imported food inputs (29%) were primary products and originated mainly from PNG, Vietnam and China, which is a change from 1998/99 when the inputs were from New Zealand, PNG and the US.

Key Market Drivers

Generally, per person food consumption in Australia for selected processed food items since the late 1980s has increased for most products except for meat (carcass), wheat flour, oils and fats, sugar and beer. Per person consumption of aerated and carbonated waters and fruit and vegetables has increased significantly over the last decade as people become more health conscious.

Convenience, health and pleasure (or premium goods), broadly encompass the key market drivers for food processing and consumption trends, influencing the type and quality of inputs being used in processed foods. Goodman Fielder, is tapping into these three trends through the release of a range of cereal-based, low-fat cookies under the Break Free brand. This signifies a new entrant to the \$1 billion Australian biscuit market.

Two other major factors include genetically modified organisms (GMO's) and organically grown produce.

The three main drivers are explored in more detail in the following discussion.

Convenience

- increasing number of households where both partners work have increased demand for home meal replacements;
- desire to prepare meals from fresh ingredients but with minimal preparation time; and
- time constraints have seen demand for convenient supply of meal, e.g. having all meal components for a stir fry located next to one another in the supermarket.

Although this trend would seem to support the growth in the Home Meal Replacement sector, which characterized the late 1990s, growth has slowed. Innovation in the frozen meals and chilled meals component markets has resulted in the recapture of market share. Further, consumers continue to want to be involved in the cooking act. While there is potential for suppliers to the chilled meal market with various ingredients, only one major manufacturer in Australia, Goodman Fielder, has developed a chilled-ready meal range. The market also favors Australian suppliers of fresh produce. In terms of the convenience sector, supports of ingredients to the frozen food sector may have more opportunities.

Health

Increasing awareness among the population on health issues has led to demand for:

- more natural foods that use natural colors and flavors;
- foods that have an associated health benefit, e.g. reduce cardiovascular disease;
- foods with high nutritional value; and
- organic foods that are free of pesticides and not genetically engineered.

Case Study: Functional Foods

In line with the trend towards healthy foods, there has been an increase in funding of functional food research and development. Goodman Fielder, for example, has centralized marketing and innovation to build knowledge of consumer trends and preferences and improve its success rate with new products. They have also increased their research and technology expertise in the area of health and functional foods.

Examples of functional foods Goodman Fielder currently produces include Logicol, a cholesterol-lowering spread, Healthwise breakfast cereal, and Nature's Gold flour, used in Uncle Tobys bread.

It is important to note however, that in the expanding market for ingredients to the functional food sector, strict regulations exist to protect consumer safety, and the process of obtaining permissions to use ingredients can be lengthy. Although Logicol is on the market, recent scientific investigations, by the Australia and New Zealand Food Authority, recommended that a range of foods containing phytosterol esters - including products carrying the Logicol brand - be removed from sale.

Pleasure

- consumers are trying new exotic flavors with emphasis on natural products e.g. fruit flavored soft drinks and natural teas; and
- texture of foods is an attribute which promotes return business.

(Food Processor magazine)

Food Standards and Import Regulations

All foods sold in Australia must comply with a range of laws designed to protect public health and safety and to assist consumers. These laws apply equally to imported and locally produced foods. Food ingredients are often freely imported to Australia. However, food ingredients face regulations including those outlined in the Australia New Zealand Food Standards Code.

See the Foreign Agricultural Import Regulations and Standards (FAIRS) report for Australia for detailed information on Australia's import requirements, including labeling. The latest version of this report (No: AS1024) is available on the following web-site: <http://www.fas.usda.gov/scripts/attacherep/default.asp>. Our report on the Retail Sector can also be downloaded at the same site by conducting a search for report number AS1023.

As Australia is a signatory to the World Trade Organization's Sanitary and Phytosanitary agreement there are obligations in terms of how it considers applications to export food to Australia. Note also that there are conditions for entry to Australia for any food and these are subject to change at short notice. It is essential therefore to check with the following agencies in relation to up to date conditions and import requirements:

- AQIS (Australian Quarantine Information Service) develops quarantine conditions applicable to any food import from any country; and
- Australia New Zealand Food Authority (ANZFA) facilitates the policy framework for the development of food safety conditions that are managed by AQIS under its imported food inspection program and is responsible for the development and maintenance of the Australian Food Standards Code. There is close liaison between AQIS and ANZFA.

Operational quarantine clearance of imported foods is quite straightforward as long as conditions for the entry of the food have been established. Importers should be aware that some commodities require additional approvals from agencies other than AQIS. It is the importers' responsibility to check with these agencies.

Advantages and Challenges Facing US Products in Australia

Advantages	Challenges
The different seasons in Australia mean that fruit and vegetables will not be competing with locally produced fruit and vegetables. Very strict import conditions apply.	Australia is free from BSE or mad cow disease. Therefore import restriction on all meat products (including processed) are very tight. New regulations were recently introduced requiring country certification.
Australia does not produce sufficient quantities of some natural ingredients or specific varieties: peanuts; pineapples; tea, coffee and cocoa; dried onions; chives; champignons; coconut; spices; lines of stabilizers; and natural colors.	Australians continue to increase their consumption of fresh produce. BIS Shrapnel confirmed this trend in their 1999 survey of food service operators where 51% of respondents agreed that fresh produce popularity was reducing demand for processed products.
US exporters are well placed to supply organic ingredients to Australia, given the increase in consumption of organic foods and the industry is in its early stages as compared to the US. Suppliers need to be aware, however, of the different definitions of foods classed as 'organic' in Australia as compared to the US.	Depreciation of the Australian dollar makes imported US products more expensive. Added to this is that growth in the Australian economy is slowing with GDP growth of 4.3% in 1999/2000 as compared to 5.4% growth in 1998/99.
Many of the major trends in flavors which impact on the Australian ingredients market, have their origins in the US.	US exports compete with Australian produced products, US products established in the market, and increasingly imports from developing countries, which are available at a range of quality and at low cost.

Note: US suppliers should be aware that from July 1, 2000 a Goods & Services Tax (GST) has applied in Australia.

Section II: Road Map for Market Entry**A. Entry Strategy**

There is no one best way to enter the Australian market and be successful. However, success is unlikely without local representation and personal visits, particularly in the food additive sector of the market. What form this local representation takes depends on the exporter, the products and the Australian representative. The local representative should be able to provide market knowledge, up-to-date information and guidance on business practices, trade-related laws, food standards, sales contacts, with existing and potential buyers, and market development expertise. The local importer, representative, trading agent, joint venture partner, or distributor should be well known to the American company before any permanent, legal arrangement is finalized. The US supplier needs to provide samples, product specifications and nutritional data for all products and provide representatives with the necessary training. Using marketing material and product information the representative will then canvas the customer base to determine the level of interest. Processors will then test sample products.

Industry advice suggests that the majority of food ingredient imports move through import agents where Australian processors, requiring a particular product from a US supplier for example, must purchase through the chosen agent. The majority of the top 20 food processors in Australia use import agents to source product as well as buying direct from other processors or producers. Some of these same companies are involved in manufacturing US brands under licence in Australia, including Bonlac Foods holding the licence for Gatorade sports drink.

Brokers and distributors/wholesalers also form an important part in the food ingredients markets. The majority of local products are obtained direct from producers or through wholesalers and distributors.

The following elements contribute to the success of businesses in the food manufacturing market:

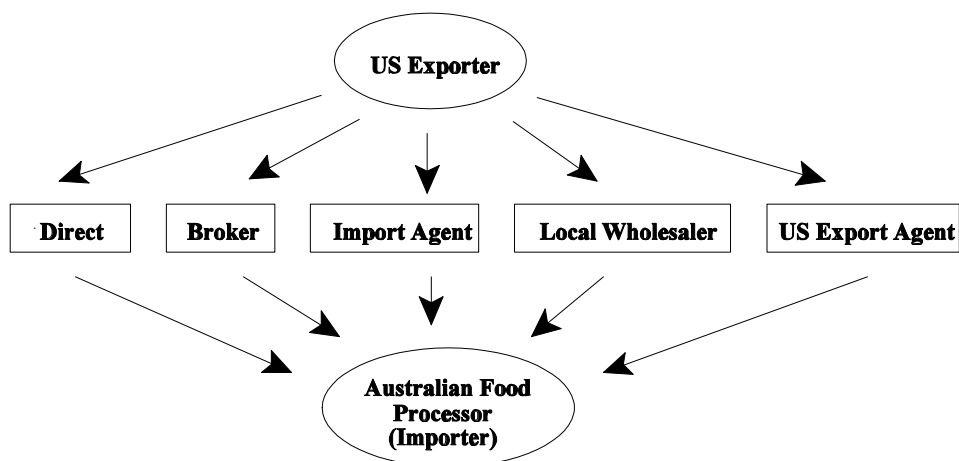
- **Close collaboration with processors and early involvement:** provide technical assistance, complimentary product range, and collaboration with flavor chemists and sensory analysts. A program of mutual product/ingredient development works well in Australia.
- **Advertising:** Advertising can be undertaken by Australian representatives such as through the industry magazine, *Food Processor*, which publishes advertisements in the form of informative articles.
- **Focused efforts on trends:** Goodman Fielder, in a comment on their strategy for success in the functional foods sector, stated that "Focused efforts have a far higher return than a scatter gun approach....There are so many opportunities, but you can't do them all - we want to make sure we pick the right trends, the big opportunities, and that's where we're really involved."

B. Market Structure

Imported food ingredients, for the most part, move from the US exporter to the Australian processor through an import agent or by Australian companies going direct to the US exporter. The chart below shows the flow of product through the distribution chain. From the Australian food processor, product is supplied to other processors, both the retail and food service industries, and for export.

The majority of Australian processors procure their food inputs through agents, local wholesalers, and distributors while some of the larger companies have established direct relationships with larger US suppliers.

The industry is dominated by large firms and at least 50% of food manufacturing capacity is foreign owned. In 1997/98, Australia's 20 largest food manufacturing companies accounted for nearly half the total industry turnover (AFGC, Australian Food, Agrifood Media, 1999). Of the top 20 firms only seven are wholly Australian-owned, nine are wholly foreign-owned or controlled and four are a mixture of local and foreign equity. Three of the seven Australian-owned firms in the top 20 are farmer-owned co-operatives (Instate 2000).



The Australian owned company Manildra Group provides an example of the difference in the distribution of domestic inputs as compared to imported inputs and is typical of the operations of farmer cooperatives, which buy their products direct from farm gate under long term contracts. Manildra is the largest user of wheat for industrial purposes in Australia, refines the majority of the NSW sugar crop and is a leading supplier of raw ingredients to the food, beverage, and confectionery industries. Manildra has operations in Australia and the United States, producing carbohydrates (starch) and protein (gluten), glucose, and fructose for industrial users. The company is the only true producer of sweeteners in Australia as the largest manufacturer of glucose syrup and the only producer of fructose.

C. Company Profiles

There are currently 3,400 Australian companies that make up the Australian food processing sector and cover a range of sub-sectors. The following table provides a summary of the food processing sector as a whole by sub-sector. In terms of Australian dollars the percentage increase in sales over the previous year is 6% (nominal) (Australian Food Statistics 2001, pp41).

Overview of Australia's Food Processing Sector

Food Processing Industry Sub-Sector	Number of Firms	Sales in USD (\$ million 1998-99) 0.6247	Sales in AUD (\$ million 1998-99)	Estimated Growth (AUD) (% increase/ previous yr)
Meat and Meat Products	551	6,671	10,678	7
Dairy Products	211	4,903	7,849	7
Fruit and Vegetables	264	2,206	3,532	10
Oil and Fat	52	655	1,048	15
Flour Mill and Cereal Food	225	2,100	3,361	4
Bakery Products	675	2,131	3,411	3
Seafood	126	694	1,111	-2
Confectionery	123	918	1,469	16
Sugar	22	1,549	2,479	-3
Other	670	3,557	5,694	-6
Beverage and Malt	471	5,387	8,624	12
TOTAL	3,390	30,770	49,256	6

There is significant concentration of processing companies in particular product categories, where it is common for the two largest suppliers to share over 50% of the market. For example, the Australian confectionery market is dominated by three major foreign-owned companies, which have a combined market share of 68%, down from 75% in 1999. They include Cadbury Schweppes Australia Limited (37%), Nestle (18%) and Mars Confectionery of Australia (13%). The following table shows the concentration in 2000 in additional categories with the country of origin in brackets:

Concentration in Australian Food Marketing, 2000: Categories Dominated by Few Players

Product Category	Major Suppliers	Market Share %
Baby Food	Heinz (US)	54.9
	Wyeth Aust* (US)	23.9
Baked Beans	Heinz (US)	72.6
	SPC (AU)	20.4
Breakfast Cereals	Kelloggs (US)	52.0
	Uncle Tobys (AU)	19.4
	Sanitarium (AU)	16.4
Carbonated Soft Drinks	Coca-Cola Amatil (AU)	58.4
	Cadbury Schweppes (UK)	14.5
	Pepsico (US)	10.3
Fruit Juices	Berrivale (AU)	50.4
	Golden Circle (AU)	13.2
Instant Coffee	Nestle (Swiss)	73.5
	Douwe Egberts (US)	13.0
Biscuits	Arnotts (US)	53.1

	Westons (UK)	8.6
Flour	Uncle Tobys (AU)	42.2
	Westons Milling (UK)	6.6
Cake Mixes	Uncle Tobys (AU)	51.2
Salad Dressings	Kraft (US)	48.0
	Meadow Lea Foods (AU)	25.4
Canned Soup	Heinz (US)	40.5
	Campbells (US)	43.3
Simmer Sauces	Unilever (UK)	35.5
	Cerebos (Australia) Ltd (AU)	29.0
	Nestle Aust (AU/Swiss)	20.1

Source: Retail World Pty Ltd (2001); US = United States, AU = Australia, UK = United Kingdom

* American Home Products.

Profiles of the Top 20 Food Processing Companies in Australia

The following table profiles the top 20 Australian food processing companies in Australia and includes information about each company's sales, type of processing, production location, procurement channels, and the end use of their products. Notice that a number of the top companies have US parents.

Company Name and Type of Food Processor	Food Sales 1999/00 US\$ million	%AUST Owner- ship*	End-Use Channel (Retail, HRI Food Service, Processing)	Production Location (domestic, off- shore, JV)	Procurement Channels	Exports % of Turn- over 1999/00
Goodman Fielder (bakery, specialized, food ingredients, snack foods, meal solutions, breakfast cereals, bakery mixes, condiments)	1,660	75	Retail and HRI Processing	Australia South Pacific, Taiwan Indonesia (JV)	Direct Import Agents Distributors	6.23
Nestle Foods (Swiss Parent) (dairy, confectionery, infant formula, prepared meals, beverages, snacks)	1,220	0	Retail and HRI	Australia US (JV)	NA	12.4
Gardner Smith (US Parent) (oilseed products/cooking fat and oil/tallow)	867	0	Retail and HRI Processing	Australia US Africa China Europe New Zealand Singapore	Direct	NA
Coca Cola Amatil (beverages)	920	60	Retail and HRI	Australia	NA	0
George Weston (bakery, meat, dairy, small goods)	919	25	Retail and HRI	Australia	Direct Import Agents Wholesalers Brokers	2.2

Dairy Farmers (dairy)	881*	100	Retail and HRI	Australia	Local Direct Import Agents Wholesalers Distributors	NA
Australian Meat Holdings (Owned by US Co. ConAgra) (meat, barley malting)	1185	0	Retail and HRI Processing	Australia	Direct	NA
CSR (raw sugar)	656	100	Retail and HRI Processing	Australia US Asia New Zealand (JV)	Direct	NA
National Foods (dairy, beverages)	610	100	Retail and HRI	Australia Hong Kong (JV) New Zealand (license) Singapore (license)	Importers Agents Wholesalers Direct Import Broker Distributor	3.29
Murray Goulburn (dairy, dairy based ingredients)	834	100	Retail and HRI Processing	Australia	Direct Import Agents Distributors	72.15
Bonlac Foods (dairy, beverages, dairy based ingredients for ice cream, confectionery, infant formula, bakery and dairy industries)	709	75	Retail, HRI and Processing	Australia Asia (JV) New Zealand (JV)	Direct Import Agents Distributors	51
Effem Foods (US Parent) (prepared meals, dry foods, soups, flavored rice, pet food) (member of Mars, incorporated group)	749*	0	Retail	45 countries including: Australia US	NA	21.24
Cadbury Schweppes (UK Parent) (beverages, condiments, confectionery)	821	0	Retail and HRI	Australia US (JV) UK (JV)	Direct Importer Agents Import Brokers	4.7
Inghams Enterprises (poultry products)	564	100	Retail and HRI	Australia New Zealand	Approved Suppliers/Agents (Product accompanied by Certificate of Analysis)	NA
Unifoods (subsidiary of Unilever British/Dutch)	537 E	0	NA	NA	NA	3.14
Arnotts (US Parent Campbell Soup Company) (baked goods, snack foods)	491	0	Retail and HRI	Australia PNG Indonesia	Direct Import Agents Wholesalers Distributors	4.21*
Ridley Corporation (refined salt; animal feed) (67.8% share in US Ridley Inc operations)	527	100	Retail and HRI	Australia New Zealand US Canada Asia European Union	Direct	NA
Nippon Meat (Japan Parent) (meat)	434	0	Retail and HRI	Australia	Direct	NA
Pauls (Italian Parent Parmalat) (dairy)	630	0	Retail and HRI	Australia China and Thailand	Direct Import Agents Wholesalers	NA
Kraft Foods (US Parent)	397	0	Retail	Australia (5	Direct	18.26

(dairy, snack foods, condiments, prepared meals, frozen meals, beverages, bacon, dry goods, bakery, rice, confectionery)				factories) US (51 Factories; 7 Distribution) Canada (11 Factories; 3 Distribution)	Import Agents Distributors Import Brokers	
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Source: Company websites and industry literature. E = Estimate; * = 1994/95 latest available data (Except George Weston, Bonlac and other local companies)

Exports of Australian Processing Companies

As identified in the above table a number of the top 20 companies are involved in exporting a large percentage of their product. This is especially the case for companies involved in dairy. For example, Bonlac Foods is a leading Australian dairy food manufacturer which exports to 50 countries worldwide and international customers account for half of their annual food sales. Bonlac, in 2000, secured orders to supply the US pharmaceutical group Warner-Lambert Co with the milk derivative Recaldent, which is used in chewing gum. The two largest cooperatives – Murray Goulburn and Bonlac account for around 45% of all milk intake and around 50% of all milk is used for manufacturing.

Goodman Fielder, the top food processor and manufacturer in Australia, has manufacturing operations in PNG, South Pacific and Taiwan (Goody Foods Co. Ltd). Goodman Fielder also has in place a joint venture operation in Indonesia with PT Sinar Meadow International Indonesia which processes and markets edible oils. GF's operation involves manufacturing, marketing and distribution of food products to over 40 countries.

George Weston is Australia's largest and most well-known producer of bread in Australia, with its top brand being "Tip-top". All production of this bread is done over the East and West coasts of Australia. However, with respect to George Weston's food and industrial ingredients, there is a network of multi-site operations. Furthermore, affiliated companies are located in many countries to provide access to raw materials, suppliers and customers.

The export activity of these firms suggests that Australian owned food processing companies are generally engaged in export. A study conducted for the Rural Industries Research and Development Corporation in 2000 (<http://www.rirdc.gov.au>), estimated that food manufacturers with more than 50% foreign ownership were four times more likely to have some export sales than firms which were Australian owned.

Foreign Direct Investment into the Australian Food Processing Industry

Following is a brief overview of foreign direct investment in the Australian food processing industry with particular reference to US investment.

- **Equity in the Australian food industry:** a recent study estimated that inbound foreign direct investment is responsible for approximately 50% of the equity in the Australian food manufacturing and food retailing industries (report to RIRDC 2000).
- **Independence and autonomy valuable to foreign owned companies:** Depending on the parent company and the nature of the product range, foreign owned companies in Australia can expand through licencing arrangements from Australia to Asia, establishing offshore subsidiaries and workplaces (report to RIRDC 2000).
- **US investment in the food processing sector:** Six of the above top 20 food processing companies in

Australia have US parents, origins or a level of US investment.

- **Investment from the US is significant:** During 1998/99, the US was the most important source of proposed foreign investment in Australia, accounting for approximately 44% of the total (Foreign Investment Review Board Annual Report 1998-99).

D. Sector Trends

The growth of the food processing industry and therefore the demand for food ingredients, is dependent on a number of factors including consumer requirements for further advances in convenience, rising consumer consciousness of nutrition, consumer demand for diverse cuisine and new flavors and the increasing diversity of the Australian population. Factors acting against further growth are the slow growth in population, consumer sensitivity to prices (particularly with the depreciation of the AUD), and increasing demand for organic and fresh foods.

The following provides in greater detail an explanation of the consumption trends, which influence the type and quality of inputs being used by the food processing industry.

Rising awareness of organic foods

The organic food market, which was once seen as a small niche market, is now moving into the mainstream of the food industry. While Australian organic food processing is still in initial phases of development, sales of minimally processed organic foods such as fruit juice, fruit and vegetables, meat and cereals, and rice milk are growing rapidly.

The current estimate of sales in the Australian retail organic market is US\$160 million rising from US\$125 million in 1998/99. Coles, one of the largest supermarkets in Australia, has seen organic foods on sale increase by 600% in 1999/2000. With this level of growth, opportunities exist in Australia for US suppliers of organic ingredients for food processing. Overall, industry analysts expect sales of organic foods will make up 30% of all food sales by 2015.

Baer Ag, a Swiss food processor, notes that there appears to be a trend towards more intensively processed organic products, including convenience foods, as compared to the early days, where minimally processed products were preferred. In the US, from where Australia adopts many trends in food processing, successful launches of organic tortilla, chips, potato chips, soft drinks, cookies and chocolate have occurred. The demand for ingredients for processed organic frozen foods and sauces, organic teas and coffee, and organic herbs are also likely to expand. Generally, organic forms of novel ingredients are likely to have potential, particularly at this early stage of the industry's development.

Although there are opportunities in Australia in the organic processed food market, the growth in the Australian industry has mainly been due to the strong demand for organic produce overseas rather than in the domestic market place. Current retail sales in Germany, estimated at US\$1.8 billion, identify it as the largest market in Europe. The World Trade Organization predicts that organic foods' share of the German food market will grow at the rate of 10% a year.

At a recent congress for the International Federation of Organic Agriculture Movement, it was noted that processing methods did not limit the range of organic foods produced. Rather it is the higher costs associated

with organic ingredients. To be successful the organic food sector will need to be more innovative to attract demand than the conventional food industry, because it is relatively small and has production constraints.

Electronic commerce in the food industry

- The Internet is having a major impact on the food industry with e-commerce increasing the variety and availability of products.
- E-commerce is an ideal opportunity for food manufacturers to trial new products as it is easier and cheaper.

Increasing popularity of 'functional foods' (Refer also Market Summary this report)

- The growing interest in health and nutrition has spurred the production of a whole new range of foods with added health and nutritional benefits (called “functional foods”) such as fat spreads with added fiber to lower cholesterol.
- Functional foods in the breakfast industry are gaining interest. Specialty Cereals, an Australian owned manufacturing company, purchased a licence to manufacture under the Vogel’s brand, breakfast cereals which incorporated seeds into the mix. Varieties include Bran Soy & Linseed and LycoSoy (lycopene and soy mix) CrispSticks. The company has plans to produce LycoSoy in the US under contract arrangements. The breakfast bar market is also growing rapidly into which the company intends to expand.

Frozen Foods

- Increasing awareness that freezing vegetables does not mean a loss of minerals and vitamins has led to the products becoming more popular.

Food for consumers with food allergies, intolerance and other requirements

- There is an increasing number of consumers who have special dietary requirements due to conditions such as asthma, coeliac, diabetes and high blood cholesterol or they are into sports and increasing their fitness. An increasing number of products are becoming available in supermarkets as compared to health food stores to satisfy the demand. Freedom Foods is an Australian company which specifically manufactures products for these markets. The trend will have an impact on ingredients such as gluten, dairy, refined sugars, saturated fats, yeast, artificial colors, flavors and preservatives.

Multicultural nature of Australian population influencing food choices

- The multicultural nature of the Australian population continues to influence food choices.
- There has been strong growth in Asian food imports reflecting both increasing demand for foods from "home" countries by immigrants and a growing appreciation for this style of food by the community in general.

Adventurous palates

- Australians continue to have a taste for spicy food using around 68% more spices in food preparation than a decade ago. Today, flavors are still ethnically based, however, the change is not as dramatic with the industry focused on looking for greater efficiencies in supply.
- Using highly descriptive methods such as flavor profiling is a highly effective way to define products and develop prototypes (*Food Processor* magazine). The Australian industry is gearing towards the use of electronic sensors in combination with trained panel to evaluate and grade products. The Australian Food Industry Science Center is one organization recognized for its involvement and expertise in the field of evaluating sensory properties of foods and raw materials.

Section III: Competition**Competitiveness of Australian Products**

Local products enjoy a competitive advantage over imported products particularly with respect to fresh ingredients. However, food imports are continuing to increase despite Australia being a major producer of raw materials and processed foods. There are a number of reasons for the high level of imports:

- The changing population mix in our multicultural society whereby people desire foods from home;
- The variety of quality, low cost foods increasingly becoming available in world markets from developing countries;
- Australia does not produce all the necessary ingredients for the food processing industry;
- The inability of domestic food producers to satisfy local demand; and
- Australian consumer tastes are changing – people are prepared to experiment with new foods and cuisines.

The competitiveness of the Australian food processing industry is also impacted by high production costs resulting in competitive advantage for low cost foreign products. Many of Australia's food processing industries still have a mainly domestic focus (such as the apple and pear industry) and enjoy the benefits of seasonably high domestic prices and returns. There is ample anecdotal evidence which points to a series of institutional and structural issues which contribute to the high price structure for Australian products. Among these are: small production scale, often in traditional but high value areas, ensuring high fixed production costs; high capitalization of production units; high labor costs; and high input costs. The lack of scale at primary producer level and relatively less developed vertical integration with the food processors compared with competitor countries, are main reasons for lack of competitiveness in raw materials. The Goods and Services Tax which was introduced in July 2000, has added to the production costs of industries in Australia due to the adoption and installation costs of a new accounting system. This, of course, has been more than offset by GST exemption for exports.

An additional comparative disadvantage for foreign products is that low cost, high quality imports, from developing countries are becoming available in world markets, which represent competition not only to Australian processors but US suppliers as well.

To increase competitiveness innovation is crucial. Over the period 1995/96 to 1997/98, R&D expenditure in the food/beverages/tobacco manufacturing industries declined by almost 38%. In an industry where product innovation is essential Australia may further lose advantage to overseas competitors if funding continued to decline. However, in January 2001 R&D received a boost with the Prime Minister announcing the Innovation Action Plan resulting in US\$1.7 billion over 5 years for the purposes of research, education, tax concessions,

emerging technologies, product innovation.

All these factors confer advantage on overseas countries that can produce the range of products required by the industry at low cost.

Competition facing US products

For some sectors of the food ingredients market there are no competing local products such as dried onions, dried herbs, nuts, stabilizers, and colors. For example, for colors Italy is a major source of anthocyanin. CHR Hansen, an import agent in Australia and international company, has acquired a majority holding of the Italian anthocyanin manufacturer, Enocanossa SpA Anthocyanin, which produces one of the major natural red colors, especially suitable for beverages. Close to 45% of the world's production of anthocyanin comes from Italy.

For other products produced globally the US faces significant competition. US food ingredients in Australia compete primarily with local products and imports from Malaysia, Singapore, Papua New Guinea, New Zealand and US products already established in the market or manufactured in Australia. The six main countries from which Australia imported food and beverage ingredients in 1998/99 were Malaysia (18%), US (16%), Singapore (10%), PNG (5%), New Zealand (4.7%). While Malaysia maintained its 1997/98 share at 18%, US increased its share from 11%, with Singapore, PNG and New Zealand losing share.

Imports of food inputs to the food processing sector may be broken up into primary and processed inputs with a significant increase in the share of processed ingredients. In 1998/99 imports of processed food ingredients from the US (by value) accounted for 63% of total US imported ingredients, whereas in 2000/01 imports of processed food ingredients to the food processing industry increased to 91%. Imports from Malaysia and Singapore are almost entirely processed. For Papua New Guinea, on the other hand, the majority of imports were primary products (99%) with the remainder being processed.

Section IV. Best Product Prospects

A. Products Present in the Market which have Good Sales Potential

Generally, the Australian market is well covered in terms of the supply of ingredients to the food processing industry from domestic and foreign sources. However, within particular sub-sectors there are areas, which are growing, particularly through product innovation. Examples of areas of potential include:

Colorants, particularly natural colors

Although Italy has a significant market share for colourants, the US also is a significant supplier to the Australian market, with the US producer Colorcon advertising in Australia's *Food Processor* magazine for its range of QuickColour portion packages.

Another ingredient import agent and international company, CHR Hansen, has tapped into the market for healthier and more natural foods by offering a range of natural colors, with 'enhanced' nutritional properties. These natural colors provide high levels of antioxidants, carotenoids and Vitamin A, which are shown to lower the risk of cardiovascular disease and other health related disorders.

Soy ingredients

Sales of soy products continue to grow in the Australian market which is in line with key market drivers of healthy eating and increased demand for nutritious and functional foods. Research continues to sing the praises of soy with Protein Technologies International (PTI) identifying that soy in the diet can keep the human heart healthy, reducing the risk of heart disease by more than 20%. At a recent PTI conference, evidence was presented which supported the idea that soy protein with isoflavones does not increase the risk of either breast or endometrial cancer and may have protective qualities (*Food Processor* magazine).

Culinary herbs - frozen

Demand for culinary herbs in Australia is met by local and imported product. In response to the expanding and diversifying market, Australia is supplying culinary herbs in paste, bottled, freeze-dried and frozen forms. Although Australian suppliers are meeting the needs of processors, imports continue.

The catering sub-sector and the food manufacturing sector are extremely cost sensitive and any product that can provide portion control has an advantage in the market. Food safety and whether HACCP systems are employed are also important. Culinary herbs presented in the frozen form seem to meet these criteria.

The food manufacturing sector holds the greatest promise for frozen culinary herbs as it leads to the incorporation of the product into other products that have the potential for expansion, such as ready-to-eat meals, par-processed foods and service products associated with expansion in the catering sector. The Rural Industries Research and Development Corporation states "As this sector is extremely price sensitive, the price, quantity, and quality of the frozen product must be regular, reliable, and repeatable over a twelve month period...suppliers of frozen culinary herbs have to convince chefs that their products are not only better than the competing fresh and dried herbs, but are demonstratively better. They have to demonstrate the twin elements of superiority in organoleptic attributes and economic advantages".

Functional foods

As previously discussed in this report there are opportunities for suppliers of products for functional foods. Inclusions to breakfast cereal snacks, natural flavors, soy proteins and fat-replacements are just a few of the products that present opportunities.

Other

Kingfood Australia Pty Limited, a specialty ingredient supplier, sourcing from Australia and world wide, supplies a range of products present in the market in significant quantities which are likely to represent further growth potential:

- Starch products: modified starches, maltodextrins, corn syrup solids, fat replacers, cyclodextrins;
- Seafood extracts;
- Powders and extracts: molasses powder, peptones & extracts; and
- Confectionery: Polyols-Erythritol, Isomalt, Sorbitol, Maltitol, Xylitol, Mannitol, Sprinkles, fudge.

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

There are food ingredients which Australia does not produce in sufficient quantities to meet demand. Products in this category include aquatic products, peanuts, pineapples, champignons, tea, coffee, cocoa, coconut, dried herbs, dried onions and spices. Shortages in the supply of these products represent opportunities for US suppliers.

There are specific quarantine requirements for these products. The website for further information is <http://www.aqis.com.au> and can be used to check import conditions for most products. Once at the site click on the 'ICON' link then the 'ICON Search' link to carry out keyword searches.

The following provides specific examples of products with good sales potential.

New flavors from the US

Many of the major trends that impact on the Australian ingredient market have their origins in the US. A new trend in America is for Nuevo Latino cuisine, which is a combination of the influences of Latin America and the Caribbean. The main ingredients being corn, plantains, chilies, tropical fruits, citrus marinades and cornmeal. The National Restaurant Association has found that the cuisine was attractive to younger diners looking for something new, exotic and exciting. Also tipped for future popularity in the US and, therefore, with potential for Australia, are Caribbean, Brazilian and Moroccan flavors.

The opportunities in Australia for new flavors are good, given that Australian consumers like to experiment. According to Steve Brown, GM CSR Food Ingredients, the last big thing was the influence of Thai flavors, however Africa is probably the home of some savory and spice flavors that are still to be explored.

Fermented flavors for bakery products

Quest International, a UK company, has produced two fermented flavors, Hybake PCM and Hybake 213, which speed up the manufacturing process while retaining the original bread flavor. The Australian market is looking on the UK release with interest.

Organic ingredients

In previous sections of this report, the increasing consumption of organic processed foods was discussed. Due to the early phase of development of the industry in Australia, there are likely to be opportunities for US suppliers, who are already involved in producing organic food ingredients. The demand for ingredients for processed organic frozen foods and sauces, organic teas and coffee organic herbs are also likely to expand.

Energy Drinks

As Australian food manufacturers are legally prohibited from manufacturing non-cola, non alcoholic energy drinks, which include caffeine (Australasian Soft Drink Association), demand for ingredients for the production of these products is limited. However, changes are likely to occur in the future and the energy drinks market in Australia is growing rapidly providing likely opportunities for US suppliers. The market is worth approximately US\$51 to US\$64 million per year (*Food Processor* magazine), which is a small percentage of the soft drink market, valued at US\$0.9 billion in 1999/2000. According to Food Processor magazine, a report released in 2000 showed V-Vitalise, a drink containing guarana plant extract and B group vitamins, gained 60% of the Australian energy drink market since being launched here 18 months ago. At present, Australia's big manufacturers are circumventing the prohibition of manufacture, by manufacturing and packing high profit energy drinks in New Zealand (NZ) and then importing them to Australia. For example, Red Bull, an energy drink manufactured in Austria, with world sales of 700 million cans per year, is imported by NZ and reconsigned to Australia.

C. Products Not Present Because They Face Significant Barriers

View the [Joint Australia New Zealand Food Standards Code](#) for guidance as to what is permitted and what is not as it forms the basis of all requirements for foods imported into Australia and for domestically produced foods. Both imported and domestically produced foods must meet the same set of standards.

Australia has introduced mandatory labeling for genetically modified foods.

Section V: Post Contact & Further Information

Post Contact

Randolph Zeitner
Agricultural Counselor
U.S. Embassy
APO AP 96549
Tel: +61-2-6214-5854
Fax: +61-2-6273-1656
e-mail: AgCanberra@fas.usda.gov
fas@optusnet.com.au

Guidelines for Companies Interested in Exporting Food Products to Australia

This Post's Food and Agriculture Import Regulations and Standards (FAIRS) report for Australia contains detailed information on Australia's food standards, labeling requirements, import regulations, etc. This report can be viewed/downloaded at the following Internet site and conducting a "AGR Number" search for report number AS1024: <http://www.fas.usda.gov/scripts/attacherep/default.htm>.

Our reports on the Retail Sector (AS1023) and the Hotel, Restaurant & Institutional Food Sector (AS1039) can also be downloaded at the same site.

Investing in Australia

The website of the Australia's Department of Industry Science and Technology has useful information for companies interested in investing in Australia: <http://www.dist.gov.au/invest/>

Food Industry Web Initiatives - Nutrition Australia

Nutrition Australia has launched its new website at <http://www.NutritionAustralia.org>. This features downloadable fact sheets, media releases, position papers, frequently asked questions, recipes, newsletters, booklets and a search engine.

List of food manufacturers and contact details for variety of canned goods see the following website: <http://www.cannedfood.org/varieties.html>

Trade Events

2002

March 14-15 Functional Foods: Through Innovation to Market Conference. Melbourne Convention Center, Melbourne, Victoria. Alison Johnson, Food Science Australia: tel: (03) 9731 3417, fax: (03) 9731 3201, email: alison.johnson@foodscience.afisc.csiro.au.

March 24-26. Fine Food Queensland. Brisbane Convention – Exhibition Center. AES Pty Ltd; tel: (03) 9261 4500, fax: (03) 9261 4545, email: food@ausexhibit.com.au.

July 21-24. Food Pro 2002. Sydney Exhibition and Convention Center Darling Harbour. Riddell Exhibitions, tel: (03) 9429 6088, fax: (03) 9427 0829, email: melbourne@riddellexh.com.au

July 21-24. 35th Annual AIFST Convention in conjunction with FoodPro'2002. Sydney Convention and Exhibition Center, Darling Harbour. AIFST Inc; tel (02) 8399 3996, fax (02) 8399 3997, email: aifst@aifst.asn.au, web: <http://www.airst.asn.au>